



# *Informational Guideline Release*

---

Bureau of Accounts  
Informational Guideline Release (IGR) No. 03-101  
July 2003

**(Supersedes in part IGR 96-102)**

**SCHOOL BUILDING ASSISTANCE CONSTRUCTION PROJECTS:**  
**RENEWAL OF SHORT-TERM DEBT**  
**AND**  
**IMPACT OF STATE REIMBURSEMENT DELAYS ON DEBT EXCLUSION**

**(G.L. Ch. 59 §21C(k) and Ch. 70B §13)**

This Informational Guideline Release informs local officials about recent legislation extending the time for making principal payments on outstanding short-term debt for priority school construction projects under the state School Building Assistance Program (SBAB). It also explains the impact of anticipated delays in SBAB reimbursement schedules on the calculation of Proposition 2½ debt exclusions that apply to these projects.

**Topical Index Key:**

Borrowing  
Proposition 2½

**Distribution:**

Accountants/Auditors  
Municipal/Regional School Treasurers  
Mayors/Selectmen  
City/Town Managers, Exec. Secys.  
Finance Directors  
City Solicitors/Town Counsels

Informational Guideline Release (IGR) No. 03-101  
July 2003

**(Supersedes in part IGR 96-102)**

**SCHOOL BUILDING ASSISTANCE CONSTRUCTION PROJECTS:**  
**RENEWAL OF SHORT-TERM DEBT**  
**AND**  
**IMPACT OF STATE REIMBURSEMENT DELAYS ON DEBT EXCLUSION**

**(G.L. Ch. 59 §21C(k) and Ch. 70B §13)**

**SUMMARY:**

These guidelines explain recent legislation that extends the time cities, towns and regional school districts may defer making principal payments on outstanding short-term debt for priority school construction projects under the state School Building Assistance Program (SBAB). G.L. Ch. 70 §13, as amended by Chapter 184 §80 of the Acts of 2002. It also explains the policy of the Commissioner of Revenue regarding the impact anticipated delays in the receipt of SBAB state reimbursement for these projects will have on the calculation of Proposition 2½ debt exclusions covering them.

Cities, towns and regional school districts may now defer principal payments on priority school project bond anticipation notes (BANs) for a maximum of seven years. G.L. Ch. 70B §13. Previously, the maximum term for such temporary loans was five years. The total borrowing period for school debt may not exceed 25 years, however. This change applies to any school building BANs refunded on or after July 1, 2002.

Section A of these guidelines explains this change and supersedes Section A of Bureau of Accounts Informational Guideline Release No. 96-102, *Required Principal Payments on Short-term School and Design Debt* (August 1996). All other provisions of IGR 96-102 not specifically amended by this IGR remain in effect.

In most cases, school construction projects are covered by an approved Proposition 2½ debt exclusion. G.L. Ch. 59 §21C(k). Under our guidelines, the debt service that may be raised outside the levy limit under an approved exclusion is reduced by the amount of any state or federal reimbursement received for the project. The purpose of this policy is to ensure that taxpayers pay additional taxes only for that portion of the debt service financed from a community's own revenues.

For SBAB projects, this reimbursement offset is ordinarily taken over the life of the borrowing because SBAB payments are made in annual installments scheduled to conclude by the same year that the debt is retired. Due to program funding issues, communities have been advised to expect delays in the commencement of these payments and receipt of installments after the debt is retired. Regardless of when payments are received, however, our policy regarding the total amount that may be excluded will still apply. After all debt service payments are made and reimbursements received for the project, taxpayers must be in essentially the same position that they would have been if there had been no delay in the reimbursement schedule.

## **GUIDELINES:**

### **A. RENEWAL OF SHORT-TERM SCHOOL DEBT**

1. Cities, towns and regional school districts may refund (renew) school project bond anticipation notes (BANs) for up to seven years without making principal payments, provided the project is listed on the school building assistance priority list. Principal payments must be made at the end of the seventh anniversary of each loan, or the end of the fiscal year following the fiscal year in which the board of education approves the project for a school construction grant, whichever occurs first.

### **EXAMPLE 1**

BANs issued on 3/1/03 may be refunded on 3/1/04, 3/1/05, 3/1/06, 3/1/07, 3/1/08 and 3/1/09 with no principal payments until 3/1/10, the end of the seventh year.

<b><u>Issue Date</u></b>	<b><u>Due Date</u></b>	<b><u>Required Paydown On Due Date</u></b>
3/1/03	3/1/04	NO
3/1/04	3/1/05	NO
3/1/05	3/1/06	NO
3/1/06	3/1/07	NO
3/1/07	3/1/08	NO
3/1/08	3/1/09	NO
3/1/09	3/1/10	YES (a)

- (a) *A paydown of 1/18 of the principal is required, or if the level debt service alternative is adopted, a paydown that would reflect the principal paydown of an 18 year level debt service schedule (or, at option of issuer, a schedule providing for a more rapid amortization of principal).*

If the board of education approves the project for a school construction grant, however, principal payments are required before the end of the seventh year.

### **EXAMPLE 2**

Assuming the Board approves a grant in August 2006, principal payments must commence in the fiscal year (FY08)\* following the fiscal year of the grant approval (FY07).

<u>Issue Date</u>	<u>Due Date</u>	<u>Required Paydown On Due Date</u>
3/1/03	3/1/04	NO
3/1/04	3/1/05	NO
3/1/05	3/1/06	NO
3/1/06	3/1/07	NO
3/1/07	3/1/08	NO
3/1/08*	3/1/09	YES (b)
3/1/09	3/1/10	YES (c)

(b) *A paydown of 1/19 of the principal is required, or if the level debt service alternative is adopted, a paydown that would reflect the principal paydown of a 19 year level debt service schedule (or, at option of issuer, a schedule providing for a more rapid amortization of principal).*

(c) *A paydown of 1/19 of the principal is required, or if the level debt service alternative is adopted, a paydown that would reflect the principal paydown of a 19 year level debt service schedule (or, at option of issuer, a schedule providing for a more rapid amortization of principal).*

2. The total borrowing period for the school loan (BANs plus bonds) may not exceed 25 years.

### **B. EXCLUSION OF SCHOOL DEBT SERVICE**

1. The total amount a city or town may raise in additional taxes under an approved Proposition 2 ½ debt exclusion for a school project that receives a SBAB grant may not exceed its debt service costs, or its assessed share of its regional school district's debt service costs, net of the actual state reimbursement regardless of when received. Debt service costs include interest on any BANs issued, as well as principal and interest on the permanent bonds.

2. The city or town may fully exclude the debt service payment due in any fiscal year in which no reimbursement is received, but the amount it could otherwise levy under Proposition 2½ for any year after the debt is retired in which it receives a reimbursement payment will be reduced by the same amount. This negative adjustment in the levy limit for those years will ensure that no more than the maximum exclusion is taken, *i.e.*, that after all debt is paid and reimbursements received, taxpayers are in essentially the same position that they would have been if there was no delay in the reimbursement schedule.
3. To avoid the impact of a negative adjustment in the levy limit in later years, the city or town may take the maximum exclusion during the same period as the term of the debt issue, or other alternative period, by asking the Director of Accounts to approve an adjusted debt exclusion schedule. See Bureau of Accounts Informational Guideline Release No. 02-101, *Proposition 2½ Debt Exclusions* (March).